

1 **TESTIMONY OF JACQUELINE R. CHERRY**
2 **FOR**
3 **THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA**
4 **DOCKET NO. 97-005-E**
5 **IN RE: DUKE POWER COMPANY**

S.C. PUBLIC SERVICE COMMISSION
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5/8/97
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8 **Q. WOULD YOU PLEASE STATE FOR THE RECORD, YOUR NAME,**
9 **ADDRESS AND OCCUPATION?**

10 A. My name is Jacqueline R. Cherry. My business
11 address is 111 Doctors Circle, Columbia, South
12 Carolina. I am employed by the Public Service
13 Commission of South Carolina, Accounting
14 Department, as an utilities accountant.

15 **Q. WOULD YOU PLEASE STATE YOUR EDUCATIONAL BACKGROUND**
16 **AND YOUR BUSINESS EXPERIENCE?**

17 A. I received a B.S. Degree in Business
18 Administration with a major in Accounting from
19 Johnson C. Smith University in 1976. I was
20 employed by this Commission in February 1979, and
21 have participated in cases involving gas,
22 electric, telephone, water and wastewater
23 utilities.

24 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
25 **PROCEEDING?**

1 A. The purpose of my testimony is to summarize the
2 results of the Accounting Staff's examination of
3 Duke Power Company's Fuel Adjustment Clause
4 operation for the period June 1996 through May
5 1997. The findings of the examination are
6 contained in the Accounting Department's section
7 of the Commission Staff Report, prepared for this
8 proceeding.

9 **Q. WHAT WAS THE SCOPE OF THE EXAMINATION?**

10 A. The Accounting Staff traced the fuel information,
11 as filed in the Company's required monthly filing,
12 to the Company's books and records. The
13 examination covered the period April 1996 through
14 March 1997. The purpose of the examination was to
15 determine if Duke Power Company had computed and
16 applied the monthly Fuel Adjustment Clause in
17 accordance with the approved clause. To
18 accomplish this, Staff examined the components
19 surrounding the operation of the clause.

20 **Q. WHAT WERE THE STEPS THAT THE STAFF EMPLOYED WITHIN**
21 **THE SCOPE OF THE EXAMINATION?**

22 A. The examination consisted of the following:
23 1. An Analysis of Account # 151 - Fuel Stock
24 2. Sample of Receipts to the Fuel Stock Account
25 -- Account #151

1 3. Verification of Charges to Nuclear Fuel Expense

2 -- Account # 518

3 4. An Analysis of Purchased Power and Interchange

4 5. Verification of KWH Sales

5 6. A Comparison of Coal Costs

6 7. An Analysis of Spot Coal Purchasing Procedures

7 8. Review of Duke Power Company's Coal Contract

8 Buy-Out

9 9. Recomputation of Fuel Cost Adjustment Factor

10 and Verification of Deferred Fuel Costs

11 10. Recomputation of True-up for

12 (Over)Under-Recovered Fuel Costs

13 Q. MRS. CHERRY, WOULD YOU PLEASE EXPLAIN THE REVIEW
14 OF DUKE POWER COMPANY'S COAL CONTRACT BUY-OUT?

15 A. On August 9, 1995, Duke Power Company requested a
16 Commission accounting order which would give Duke
17 Power Company authorization to defer costs the
18 Company anticipated incurring in association with
19 one of its existing coal contracts and to amortize
20 such costs to the cost of fuel burned. The costs,
21 which total \$23,024,789.75, are coal contract
22 buy-out costs which Duke Power Company and one of
23 its contract coal suppliers, Westmoreland Coal
24 Sales Company, negotiated to buy out Duke Power
25 Company's obligation to purchase coal during the

1 remaining period of the existing contract--August
2 1995 through July 1996. Duke Power Company felt
3 that they could purchase replacement coal at
4 prices considerably lower than the prices
5 pertaining to the existing Westmoreland contract.
6 Duke Power Company stated, in its request letter
7 to the Commission, that Duke Power was confident
8 the cost of replacement coal plus the proposed
9 deferral (which is the cost of the contract
10 buy-out) when compared to the cost which would
11 have been incurred under the existing contract
12 would provide a substantial net benefit to
13 customers. The Company, therefore, requested
14 authorization to defer the buy-out payment in
15 Account No. 186 - Miscellaneous Deferred Debits,
16 and to amortize the buy-out cost to Account No.
17 501 - Fossil Fuel for at least a twelve-month
18 period beginning in September 1995. A
19 twelve-month time period was chosen, as stated in
20 the Company's request letter, to cover the same
21 time period (twelve months remained on the
22 existing contract) that savings on replacement
23 coal purchases would likely be realized. Also,
24 September 1995 began the amortization period
25 because the Company noted that any purchases of

1 replacement coal in August 1995 would not likely
2 impact the cost of fuel burned until September
3 1995.

4 On August 22, 1995, the Commission approved Duke
5 Power Company's request, for accounting purposes
6 only, to reflect the buy-out costs in the
7 aforementioned accounts with a twelve-month
8 amortization period. The Commission noted that
9 amortization will only be allowed to the extent
10 that savings on replacement coal purchases are
11 realized. The Commission also noted that the
12 Commission reserves the right to review the
13 economics of the Company's transaction in the
14 Company's fuel clause adjustment proceedings.
15 During this audit review period of the Company's
16 fuel adjustment clause, April 1996 through March
17 1997, Staff reviewed the savings associated with
18 the replacement coal purchases plus the
19 amortization of the contract buy-out versus the
20 Company's original coal contract costs. The
21 replacement coal purchases consisted of spot
22 market coal and coal purchased from other coal
23 contract suppliers. Staff reviewed the costs of
24 the replacement coal purchases, compared those
25 costs to the original contract costs and then

1 reduced the net result of the aforementioned costs
2 by the monthly amortization of the contract
3 buy-out, which was \$1,918,732 per month. It
4 should be noted that the final monthly
5 amortization of the contract buy-out was in August
6 1996. The cumulative net savings as of August 31,
7 1996 totaled \$19.7 million.

8 **Q. WITH REGARD TO THE TRUE-UP OF**
9 **(OVER)UNDER-RECOVERED FUEL COSTS, WOULD YOU PLEASE**
10 **ELABORATE ON STAFF'S COMPUTATION?**

11 **A.** Staff analyzed the cumulative under-recovery of
12 fuel costs that the Company had incurred for the
13 period April 1996 through March 1997 of
14 \$13,299,613. Staff added the projected
15 under-recovery for April 1997 of \$592,885 and the
16 projected over-recovery for May 1997 of \$416,926
17 to arrive at an cumulative under-recovery of
18 \$13,475,572. The Company's cumulative
19 under-recovery as of March 1997 and as of May 1997
20 differs from Staff's. Staff's Purchased Power
21 figures for April 1996 through August 1996, and
22 for October 1996 through January 1997 differs from
23 the Company's figures. Staff's figures, per
24 Staff's report, reflect calculation adjustments
25 made to Purchased Power Costs for the

1 aforementioned months, based on Staff's review of
2 Purchased Power invoices and system operations
3 reports. Also, the Company's corrections to
4 Purchased Power Costs for the last fuel review
5 period are reflected in the Purchased Power Costs
6 for April 1996 - June 1996. Staff reflected these
7 previous corrections in the last fuel review
8 period. Staff's Exhibit G, S.C. Retail Comparison
9 of Fuel Revenues and Expenses, which consists of
10 two pages, provides details of Staff's cumulative
11 under-recovery balance. As stated in Duke Power
12 Company's Adjustment for Fuel Costs, fuel costs
13 will be included in base rates to the extent
14 determined reasonable by the Commission.
15 Accordingly, the Commission should consider the
16 under-recovery of \$13,475,572 along with the
17 anticipated fuel costs for the period June 1, 1997
18 to May 31, 1998 for the purpose of determining the
19 base costs for fuel in base rates effective June
20 1, 1997. This under-recovery figure of
21 \$13,475,572 was furnished to the Commission's
22 Utilities Department.

23 **Q. MRS. CHERRY, WOULD YOU PLEASE DESCRIBE THE**
24 **REMAINING STAFF EXHIBITS?**

25 **A. Staff prepared exhibits from Duke Power Company's**

1 books and records reflecting fuel costs during the
2 review period.

3 Specifically, these exhibits are as follows:

4 Exhibit A - Coal Cost Statistics

5 Exhibit B - Received Coal-Cost Per Ton Comparison

6 Exhibit C - Detail of Nuclear Cost

7 Exhibit D - Total Burned Cost (Fossil and Nuclear)

8 Exhibit E - Cost of Fuel

9 Exhibit F - Factor Computation

10 Exhibit G - S.C. Retail Comparison of Fuel

11 Revenues and Expenses

12 **Q. MRS. CHERRY, WHAT WERE THE RESULTS OF THE**
13 **ACCOUNTING DEPARTMENT'S EXAMINATION?**

14 **A.** Based on the Accounting Staff's examination of
15 Duke Power Company's books and records, and the
16 utilization of the fuel cost-recovery mechanism as
17 directed by the Commission, the Accounting
18 Department is of the opinion that the Company has
19 complied with the directives (per the Fuel
20 Adjustment Clause) of the Commission.

21 **Q. MRS. CHERRY, DOES THIS CONCLUDE YOUR TESTIMONY?**

22 **A.** Yes, it does.
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